

DRAFT

2000

360ipo

*instant peer observations*

*An application service providing real-time peer  
observations and search-enabled data collection  
for capturing the collective knowledge of your organization.*

2000

Confidential

**Contact Information**

For more information please contact:

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**Confidentiality Agreement**

The Recipient has been or may be in the future approached by the Founder or Founders in connection with a proposal to create a business based on the attached memorandum (the "Venture").

By acceptance of this confidential memorandum, the Recipient agrees to keep, and to cause to keep strictly confidential and secret (a) the Venture, (b) the content of all such discussions and negotiations, including, but not limited to the terms and proposals of any such Venture and (c) all documents, agreements, correspondence and other information created or delivered in connection with such discussions, terms and proposals (collectively, the "Confidential Information").

Recipient shall not in any way or at any time, discuss or make use of the Confidential Information, except for the purpose of evaluating the proposal and its terms and conditions. Any individuals, however associated with the Recipient in his or her role as the Recipient, shall not, for their own or the Recipient's benefit or for the benefit of any person or entity other than the Founder or Founders enter into or seek to develop a company which will provide services similar to the Venture.

### Executive Summary

We believe there exists an opportunity to utilize existing technology to improve upon the information an organization currently captures about their employees and their employees perceived value to the organization. Existing evaluation methodology and feedback to and from employees generally takes the form of written appraisals processed at a given interval (i.e., quarterly, annually). Evaluations and feedback are generally processed as part of a human resource function by a superior. Employees and superiors find honest feedback awkward. Superiors find themselves with limited time to fully consider each team member's contribution in light of the administrative burden and increasing number of direct reports. These evaluations and feedback mechanisms have varying degrees of success both for the employee, manager and organization as a whole.

A true dynamic, real-time method of evaluation and feedback would provide the employee and his or her superiors with a proxy, but not an absolute measure, of their perceived value to the client organization. One of the best tools for measuring value in real time is the stock market. Therefore, 360ipo will create the ability of each employee, subordinate and superior to issue "stock" in themselves to be freely traded by their superiors, peers and subordinates. The stock will have no true monetary value, but the relative performance of an individual's stock will be determined by the demand for their stock in the marketplace created by their peers, superiors and subordinates.

Secondly, yet potentially more valuable to the client organization, each employee will desire to provide the market for their stock with the most current information about them. Therefore, employees will update a profile of themselves in real-time outlining their skill set, work productivity, recent successes, etc. The profile will include information about each employee and their experience in various products, services and industries. This search-enabled database of profiles becomes the dynamic collective knowledge of the client organization.

360ipo is a unique service that will be created as an application service accessible by each client organization through their existing Internet connections. Billing will take place based on usage. Usage creates value for the organization as the employees update their profiles. Access to data will be discrete and proprietary by client organization. We believe that the application service business model allows 360ipo to maintain the proprietary value of the technology while also allowing 360ipo to aggregate trading data across several clients and industries. Companies continue to turn to the application service model of outsourcing to limit the costs of maintaining internal systems while existing internet connections ease the access to such outsourced applications.

360ipo is in the earliest stages of development. Development of a beta version of the application will proceed with the initial round of funding sought with this document. A secondary round of funding will be utilized for a broader product launch and focused marketing campaign.

### Transaction Description

The founders are pursuing a minimum seed capital investment of \$1 to \$1.5 million to pursue the initial development of the 360ipo service as outlined. The seed capital is anticipated to fund operations for twelve months. The one year goal is to have a beta version of the service operational and in testing at a beta site. Once initial development is underway, a second round of funding will be secured and the product launch will be formulated. The founders are willing to contribute (1) the existing patent work, (2) the existing developmental work, (3) the domain name, and (4) necessary personal funds to pursue 360ipo full-time.

### Investment Considerations

**Unique Service:** 360ipo will provide client organizations with an improved methodology for valuing and capturing the collective knowledge of their largest investment - people. 360ipo will have the unique ability to capture the data while providing an interesting means of feedback to employees in a dynamic, real-time environment. 360ipo also provides client organizations with the ability to truly begin to value their employees from a truly peer-based objective standpoint versus existing methodologies.

**First to Market Advantage:** Our service is the first of its kind. With the proper patent protection and first-mover advantage, we should establish brand equity and be able to take advantage of that relative advantage in the form of increased relative demand for the product as well as higher relative pricing. Brands matter in the new technological community.

"Strong brands are vital assets in the Internet-based business world."  
-Bear Stearns, *e-volve*.

**Increasing Returns to Scale:** Not only does 360ipo become more valuable with more usage by client organizations, it also provides increased value to each client with increased usage by their employees. As the data set increases, each client organization is able to tap a wider array of knowledge within their organization. As the collective data set of trading increases for 360ipo, our aggregated data by industry and by position becomes more valuable to client organizations as they tap the aggregated data to evaluate their organization in relation to their industry peers.

**"Lock-in":** 360ipo's business model locks a client organization into continuing usage since a similar service is not currently available and the historical data set would not be easily transferable. Assuming service standards are met by 360ipo, a client would have little incentive to look elsewhere for a similar service.

**"Viral-ness":** We believe that we can create a certain "viral-ness" with 360ipo. For example, since employees will be interested in providing updated information about themselves to their peers, superiors and subordinates, we plan to allow for the employee to provide a link to their profile at the bottom of internal email transmissions similar to the way people automatically include their name and phone number currently. Email recipients will then constantly be reminded that profiles exist and should be updated.

**Growth in ASP Usage:** Application Service Provider (ASP) usage is expected to grow from \$360 million in total expenditures during 1999 to \$1.4 billion in 2000 and to \$3.6 billion in 2001, according to Giga Information Group. ASP usage is an accepted practice among technology users and is becoming increasingly more prevalent. We believe we have the opportunity to participate in the exponential growth and potentially piggy-back off of existing provider's growth.

### Company Overview

The founders envision 360ipo as a tool for real time peer-based feedback of an individual or team's performance and value within an organization. Feedback will take the form of peer valuation of the "stock" of an individual or team. Valuation of the "stock" will take place in real time as the "stock" of that individual or team is traded by their peers and co-workers on our Internet-based application. Secondly, but potentially more valuable initially to the client, 360ipo will motivate employees to document their involvement and knowledge of specific industries, products, services, or projects. Employees will want to complete a firm-wide accessible profile of themselves so as to provide the "market" for their "stock" with the most recent data about themselves. Additionally, with the dissemination and flattening of organizations, the updated profile is a way for the employee to communicate involvement to a superior with numerous direct reports. This collection of data provides a real-time search-enabled database of the collective knowledge of the organization. The ability to search that collective database will alone enhance an organization's ability to effectively and efficiently coordinate its collective knowledge.

**360 of 360ipo:** Each participating individual within a client organization will be required to hold a certain proportion of their "stock" portfolio in superiors, peers and subordinates. This gives us the "360" of 360ipo. We will also capture the reasons behind trades of superiors, peers and subordinates by individual and team, if applicable. In order to capture this additional data, and value, regarding the individual's performance, each trade will require a reasoning above and beyond the pure performance of that individual's stock. Management may identify key areas to evaluate for each job category or for the firm as a whole (e.g. leadership, revenue generation, analytical ability, teamwork). When a person wishes to execute a trade, they are prompted to identify one or more of these reasons for the trade. Several reasons may be chosen in ranked order. Several firewalls will be constructed to ensure the privacy of employee data and some performance measures. We anticipate that co-workers will only be able to review the employee's profile and the historical performance of their own "stock". The relative transparency of the data will be defined by the client organization. While all data points will be available down to the individual level, that data will be shared only on a selective basis within the client organization (e.g. senior management). 360ipo will have access to the data on a 'no name' basis for aggregation and analysis. We will then be able to generate revenue by providing aggregated data analysis by client industry and by specific job function.

**ipo of 360ipo:** The "ipo" portion of 360ipo stands for instant peer observations; the stock market reference is deliberate. 360ipo's trading function allows co-workers to trade the "stock" of their peers in real-time. Employees will have access to an individual's profile, completed and updated by the individual, as well as relative performance measures (i.e. indexing). The initial number of shares "issued" by an individual or team will be determined by the relative size of the organization balanced with the need for a liquid market. Employees will not be able to trade or own their own stock in order to maintain the greatest amount of objectivity. The relative price performance of each employee's stock will be determined by the relative demand or lack of demand for their shares. There will be real time quotes for that individual's stock. Quotes will be generated by a to-be-designed "market maker" function designed to maintain liquidity in the "market" and ensure that prices reflect current demand. The "market maker" will be designed to limit any attempt at market manipulation by a small collusive group. This information allows the individual to make trading decisions quickly and easily. We envision providing individual performance measures as well as relative price performance (i.e., a beta measure to the overall market, or to the individual's peer group). We will research and create a trading system based on "best practices" of existing stock trading websites. Each client of 360ipo will be able to determine the relative "transparency" of an individual's information from the system. We anticipate that senior management will initially choose to limit the aggregated results of trading for their own use initially.

**Profiles:** The marketability and performance of the individual's stock will be determined by their peer's anonymous trades. One way for the individual to market their perceived value is through the timely updating of their profile. The profile will be accessible by anyone in the client organization. They may choose to automatically attach a link to their profile at the bottom of each of their emails similar to the way titles and contact information are currently attached. Individuals will want to provide the "market" with

timely data on their most recent projects. The resulting real-time update of their profile will provide the overall organization with a comprehensive search-enabled resource for identifying individuals to contact regarding new projects in certain industries or on certain products. Individuals who may be deciding whether or not to purchase an individual stock will be allowed to put stocks on a "watch list" and be prompted by email when that profile has been updated.

### Inadequacy of Existing Process:

The current model for providing feedback to employees generally takes the form of a formal review process done at set intervals of time. We see several inadequacies inherent in this process.

- Feedback is not dynamic. In today's marketplace, employees are an increasingly valuable part of the organization. According to the Bureau of Labor Statistics, the average tenure of an employee is now just over 3.5 years. If reviews are done annually, feedback is given three times before the person decides to leave. In Silicon Valley, the turnover of employees is close to 20% a year ("Career Evolution", *Economist*). We view this as an increase in the "velocity" of employment. One way to make sure that an organization's best performers are recognized quickly is to provide for more timely dynamic feedback.
- The formal review process becomes administrative instead of a time to review, recognize and reward real performance. A generic form must be completed that is consistent with the human resource function and may have little to do with the function being reviewed.
- Feedback will generally be positive regardless of performance for fear of legal or social repercussions.
- The information is asymmetric. Typically, superiors review subordinates. Little to no feedback is given back up the chain on the superior's performance as a superior.

An attempt to solve the inadequacies of the existing process is the 360 degree review. Consultants are generally hired to perform truly objective feedback to an individual by interviewing those immediately impacted by an individual's performance. This process does obtain more objective information and reduces asymmetric information. Unfortunately, the process can be expensive and is only performed on certain individuals at a single point in time. A more open, dynamic feedback mechanism, like 360ipo, would allow an organization to target those 360 degree dollars on individuals identified as top or bottom performers.

We believe that 360ipo encourages a company-wide "ownership" of the review process. Employees will respond more favorably to a process that encourages and involves them rather than the current top-down approach.

Additionally, the current review process does not adequately recognize real performance. In turn, we believe turnover tends to be higher. With real-time job recognition, employees will feel as though their performance is being recognized. Better employees, who would be more marketable, are less likely to respond to new offers for employment since they believe they are actually being recognized for their performance.

Lastly, less turnover leads to significant cost savings. Greater retention leads to less expense such as training and relocation. Additional expense savings, but less obvious, result from less distraction from existing employees related to interview time and the "unknown" quality of new hires.

## Technology

Web Screens: We will develop a series of easily navigable web pages. The web pages will be accessible by the client organization by direct link off of their desktop. The site will be housed on our server. We'll center the site around a navigation bar that will link to (a) profile page, (b) the search function, (c) trading, (d) portfolio data, (e) indices, (f) FAQs, (g) news, and (h) help function.

- (a) The profile page will be where the individual can log in their most recent activity. We envision that the profile will include performance data on their stock as well as their inputted data;
- (b) A search function would allow the searching of the collective database by individual, product, service, industry, or performance;
- (c) The trading area will be based on a "best of breed" evaluation of current stock trading websites;
- (d) An individual will be able to access data on his or her current portfolio with relevant position data, performance measures (e.g., year-to-date performance by stock, allow for comparison to indices) and order status;
- (e) The indices page will allow an individual to research indexed data in a time series by job function;
- (f) The FAQ area will allow individuals within client organizations to post questions to 360ipo or their system administrator. This area would be client organization specific to allow for detailed questions for that client;
- (g) The news area may be an area where 360ipo can post general news about the product but also provide a mechanism for individual system administrators to post relevant information on their particular company.
- (h) The help function will provide information on how to navigate the system as well as information to help a person familiarize themselves with trading "stocks".

Market Maker: The "market maker" function generates the quotes on individual stocks while ensuring "market" liquidity similar to market makers in the stock market. The market maker will keep a book of orders for each stock, automatically determine bid-ask spreads from existing orders, make a market for all stocks, move spreads to ensure liquidity, and collect a "commission" for each trade to discourage excessive trading. Additionally, "limit orders" will be allowed partially to help the market maker determine bid-ask spreads. While this process will be transparent to the client organization, it will be an important piece of the development of 360ipo as its proper operation will be important to maintaining meaningful liquidity and efficiency in the client organization's market.

We envision tapping current contacts in the academic field to help in the development of the market maker. We believe that the development will be of interest to members of the academic community. Client organizations will vary in size. It will be an interesting academic experiment to determine the optimal number of shares an individual in a client organization must "issue" to achieve liquidity and efficiency in their stock. We believe that academia may be interested in helping in the development of the market maker in return for access to trading data. The discrete trading data will be interesting information for analysis as client organization's differ in size and trading activity.

Internet Website: The actual home website of 360ipo will need to incorporate several items and revolve primarily around the service description and marketing. We anticipate a site that includes: (a) a description and "tour" of 360ipo, (b) testimonials, (c) FAQs, (d) "in the press", (e) contact information, (f) investor relations, (g) a list of aggregated data available for purchase as it becomes available, (h) relevant links to industry organizations. Additionally, we may consider a "chat" room that allows users to provide real-time feedback and hosting by certain areas of 360ipo (e.g. the developer of the market maker could host a two hour chat session on how quotes are generated).

## Revenue Model

Our initial focus will be on generating revenue in several ways:

- **Licensing** of 360ipo will maintain confidentiality regarding the technology while providing a recurring revenue stream. A "sales" model will generate higher sales dollars early but require a continued replenishment of the customer base. Licensing allows 360ipo to build a longer-term relationship with the customer and generate incremental revenue through various sources such as individual or team in-depth analysis, evaluation of aggregated data, etc. We believe that licensing 360ipo as an application service will allow for an easier sell to the client organization as they will only be paying for usage and additional usage creates more value to the organization as the data is collected within the employees profile.

"The Internet could be the most powerful driver of corporate outsourcing for years to come." -*Bear Stearns, e-volve*

- **Installation fees** will generate one-time income in excess of ongoing licensing revenue.
- **Training fees** will be generated as part of the installation as well as general training of employees who will use the system. However, we anticipate that a user-friendly help function will limit this need. Training can also generate on-going dollars as new upgrades come online.
- **Upgrades** may come in various forms and generate revenue through one-time charges or additional licensing income. Initially, 360ipo will undoubtedly develop additional features that will be marketed to existing customers. Also, the customer's internal systems will be upgraded and will allow for, or require, 360ipo upgrades.

As 360ipo develops and the client base grows, we believe there are several incremental revenue streams to generate:

- **Evaluations** will be an additional feature that customer's may request outside of the standard product. We envision a team of analysts, likely outsourced initially (statisticians, industrial psychologists, etc.), that a customer may engage, for a fee, to analyze a particular set of trades or performance measures. The customer may be interested in the analysis of an individual or team or peer group. Additionally, 360ipo can be used to evaluate the effectiveness of internal or external training. The date of any training could be used as an inflection point in the trading of a group or an individual's stock. The pre- and post-training performance of that individual's stock (an "event day" study) could be effectively evaluated to determine if the individual's peers perceived any change in the value of that individual since their training.
- **Aggregated Data** will be a valuable resource. As part of the licensing agreement, customers will allow 360ipo to aggregate data from their trading on an anonymous basis. In return, we will aggregate data and share that information on an anonymous basis. Customers will be able to evaluate several metrics within their industry or an industry that they may be researching. For example, a client might review data from the consulting field and determine what is the most valuable asset of senior consultants within the consulting industry (i.e., leadership, analytical ability). The customer can then specifically approach consultants with those attributes since those are the metrics most valued by the consulting industry.
- **Individual profiles** is an area for smaller potential revenue. Individuals or senior management may be interested in asking 360ipo to generate a more in-depth written profile by individual without any actual interviewing of the individual. The profile could include more in-depth time-series data on trades (e.g. who has bought and sold over time and why), indexed performance measures, some high-level commentary from 360ipo in-house analysts, etc. These profiles could be useful, if appropriate, in a review. Additionally, this may be a helpful resource in limiting the administrative task of annual reviews. In effect, 360ipo becomes an industry standard for objective performance evaluation.

"E-businesses will use new applications to empower employees by reducing time spent on administrative tasks." -*Bear Stearns e-volve*



### Marketing

Marketing will not be an initial focus of 360ipo. Development will take priority until a beta version is near development. We anticipate utilizing an outside firm to develop public relations and marketing channels. Marketing will likely be to individual clients as well as human resource industry players. We envision that existing training organizations and ASPs would be interesting in joint marketing efforts.

We see a unique opportunity to partner with training groups. We may share trading data, with permission, on clients that they have trained. Our data would allow for an objective opinion on the effectiveness of the training. We would look at the date of training as an inflection point in the person's value to the organization and evaluate any change in the trading of that person's stock pre- and post- training to see if there was a material difference in their perceived value to the organization. In the stock market, this type of study is referred to as an event-day study.

### Legal Issues

[We are currently working toward patenting and trademarking the 360ipo service.]

[Need to address any employment law issues]

### Legal Structure

[To be determined]

### Expenses

In order to limit upfront expenses, the initial expenses would be limited to a finite group of required expenses:

- The **contractual employment** of the founder will initially be a three-year term of employment with appropriate current salary, cash bonus, and stock option grants.
- The **legal** expenses will be for the patenting and trademarking of the system, the formation of the company and the initial investment documentation.
- The **development costs** for the software will be outsourced once an appropriate provider is located. The development of the system will take on two distinct phases. First, the actual development of the intranet website, is expected to be relatively inexpensive. Emphasis will be on an open system that allows for ease of access and use. Client profile storage and ease of searching the profile database will also be priority components. Secondly, we will need to develop the automated market making system for developing stock quotes. We anticipate tapping key contacts in the academic field. We believe that we may be able to utilize research and graduate work at the academic level and limit the costs associated with this side of the development in exchange for limited access to trading data.
- The **identity system** to be developed will need to encompass the look of the intranet website and simultaneously project dual images. Client's will have to view the product as a fun, interesting application that is easy to navigate. However, we need to project creditability since the representative data will be an assessment of an employee or team's performance. Not a subject that one wants to take lightly, or they want their superiors to take lightly.
- **Office expenses** will be limited. The founder has agreed to limit these expenses to initial hardware and software required as well as the relevant communication needs (e.g. internet connections, cell phones with voicemail, etc.). We will not secure any office space or administrative help until absolutely necessary.
- There will be **travel** expenses associated with development. We may need to travel to interview and supervise development of the varying pieces of the company.
- We anticipate the **marketing** expenses would be limited until a beta version of the software is within reach. Once we believe that we are within a reasonable time period for a beta test, we will determine our best channel for marketing and pursue through outside sources.

We have estimated that the total first year cash expenses would approximate \$1 million with the majority of those dollars spent on the development of the beta version of the application.

### **Timeline**

Project	Timing		
Patent filing	up to 6 weeks		
Close initial funding	→	8 to 10 weeks	
Company formation	→	up to 4 weeks	
Application develop, beta version	→	26 to 38 weeks	
Identity system, including website	→	6 weeks	
Develop marketing materials	→	6 weeks	
Second round of funding	→	16 weeks	
Identify and contract beta sites	→	→	8 to 10 weeks
Begin beta testing	→	→	within a year of initial funding

### **Management / Advisors / Proposed Board**

We anticipate organizing a Board with a broad range of experience and contacts. There are obvious needs for individuals in the human resource, industrial psychology, venture capital and finance fields. We will endeavor to recruit those individuals that are willing to take an active advisory role.

*William (Bill) Herrell, 34:* Bill has spent the last seven years in the corporate and investment banking industry. For the past three years, he has worked with a Southeast regional investment bank focusing on the placement of private and public debt. Previously, Bill spent four years with Bank of America (previously NationsBank) in various roles in corporate finance. Prior to his employment in the corporate and investment banking industry, Bill spent six years in various roles in the insurance industry. He has a Masters of Science in Finance from Boston College and a Bachelors of Business Administration from Eastern Kentucky University. He and his wife reside in Atlanta, Georgia.